ACCOUNTANCY

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PROFESSIONAL NOTES

Accountants and the Control of Engagements

The new provisions for the limited direction of labour, contained in the Control of Engagement Order, 1947 (see ACCOUNTANCY, October, page 215) exempted those employed in a professional, administrative or executive capacity. When the first details of the Order were given in the Press, reference was made to audit clerks, who, it was stated, could not be regarded as employed in a professional capacity. Some doubt remained, however, whether this statement was consonant with the views of the Ministry of Labour, and also whether audit clerks—and other members of the Society of Incorporated Accountants not in practice—if not deemed to be acting in a professional capacity, nevertheless came under the heading of administrative and executive workers. A memorandum issued by the Ministry now makes its attitude on these points clear, though, as the memorandum says, an authoritative decision can only be given by the Courts. Paragraph 13 of the memorandum is as follows:

(*a*) *Professional.* Persons holding standard qualifications of a professional nature are normally regarded as professional; but not all qualified persons are necessarily employed in a professional capacity. For example, a qualified accountant employed as an audit clerk could not be said to be employed in a professional capacity.

(*b*) *Administrative and Executive.* Employment in an administrative or executive capacity may be held to exist if the person concerned is required to take decisions, to organise or to develop ideas on his own initiative, even within a clearly defined policy or directive.

Examples of Professional, Administrative or Executive Workers who are excepted:

The following are examples of professional, administrative or executive workers for employment in which capacities persons may ordinarily be engaged direct, unless they are normally employed in agriculture or coalmining. The list contains examples only and is not intended to be exhaustive: Accountants, etc., etc."

From this it seems that all Incorporated Accountants employed in the accountancy profession or in industry are, generally speaking, outside the scope of the Order. Exceptions appear to be those accountants employed in the coal industry or, probably, by agricultural authorities.

The Order applies, with certain exceptions, to the engagement of men and women between the ages of 18 and 51 and 18 and 41 respectively. It prohibits an employer from advertising, circularising, exhibiting posters or otherwise publicising vacancies in respect of persons covered by the Order—the prohibition would, therefore, apply to a practising accountant or an accountant in industry who is seeking to engage an unqualified assistant. An employer who makes contact with an employee covered by the Order, as through an advertisement or by direct approach, cannot offer to engage him without first consulting a local office of the Ministry of Labour or approved employment agency. An

employee who is within the restricted classes—this includes, as indicated, unqualified accountancy assistants or audit clerks—may seek employment by advertising or by direct approach, but, before accepting an offer, must apply to a local office of the Ministry of Labour or an approved employment agency.

The Appointments Register maintained by the Society of Incorporated Accountants—the use of which is available free of charge to Incorporated Accountants, whether seeking appointments or employees, and also to employers generally—will continue to function in the placing of members of the Society in the profession, and in accountancy appointments in industry. The Register can, however, no longer deal with the placing in employment of students over the age of 18.

A Drastic Prescription and a Dismal Prognosis

The economic picture is a moving one, and it moves fast. But not fast enough to dispel the prospect of further difficulties ahead. We have had drastic cuts announced in dollar imports—food from the western hemisphere down by £66 million a year, raw materials down by £100 million a year; the armed forces reduced in oversea expenditure by £10 million a year. Tobacco imports cease entirely. Exports to dollar countries are to be further stimulated to the extent of £45 million a year. Yet it is estimated that the dollar gap in our balance of payments after these drastic economies will be no less than £250 million a year at the end of 1948. Our gold and currency reserves will be down to only £270 million, or less than half the present figure. Borrowings from the International Monetary Fund and gold sales continue. At present the dollar drain is running at $70 million a week. The capital construction programme is at last substantially curtailed by £200 million. Houses and civil engineering works appear to be particularly affected, but the distribution of the cuts among various heads of expenditure has not been made known as we go to press. The curtailment indicates official agreement, long delayed, with the thesis repeated by economists and others for many months past—that we have been attempting to do too much in the way of public and private investment, and cannot achieve anything like the ambitious targets set. But the present cuts are admitted to be only "a first step," and it is clear that further reductions in capital expenditure must come.

Sir Stafford Cripps having acted in October, the Chancellor of the Exchequer is expected to make his contribution during this month. Guesses on the contents of the autumn budget avail little, but an increase in the tax on distributed profits is almost certain. Whether the T.U.C. as a *quid pro quo* will agree to some "freezing" of wage rates—on which the Government is reported to be in negotiation with them—remains an open question. Whether only indirect taxes will be relied upon to reduce the "inflationary potential" it is not possible to say. Much depends on the Chancellor's methods of handling the financial problem; at this late day he seems to appreciate how the suppressed inflation distorts the economy and causes resources to flow in the wrong directions, despite physical controls, but whether he will adequately deal with it remains to be seen.

Entrants to the Profession

Almost all the professions are showing anxiety at the dearth of young people entering them. The problem is conspicuous in, for example, the teaching profession and, to take a smaller but important case, the actuarial profession. Accountancy is also affected by an insufficiency of articled clerks and other newcomers. Even worse, however, than the present difficulty of recruiting staff in the accountancy profession is the prospect for the future. The number of young people aged fourteen to twenty in employment in Great Britain in 1938 was 4·9 million; by 1948 it is estimated that the figure will be 3·1 million, and by 1958 that it will have declined still further to 2·2 million. In these circumstances it is necessary for bodies like the Society of Incorporated Accountants to consider ways and means of attracting the right type of candidate. The difficulty consists in bringing to the attention of young people, shortly before they leave school, the attractions of a career in accountancy—and also, it may be mentioned, making those attractions as big as possible, particularly in a financial sense. A full solution of the difficulty cannot come solely from the professional bodies, but lies with accountants, in practice or in industry, who alone can make conditions such that the profession will obtain an adequate number of recruits of the right standard.

—and Qualifying Examinations

Meanwhile, some important changes in the examination system in secondary schools, recommended by the Secondary Schools Examination Council, provide —contrary to an announcement made by the Ministry of Education last year (see ACCOUNTANCY, June 1946, p. 175)—that a form of certificate shall still be obtainable by those leaving school for the purpose of securing exemption from professional examinations. In last year's announcement, it was suggested that a modified Higher School Certificate would in future be taken at the age of eighteen. At the time we remarked that if, before obtaining exemption from the Preliminary Examination of the Society or similar body, entrants into the accountancy profession must have attained the age of eighteen, many aspirants would be deterred, or would be obliged—unnecessarily, we thought—to sit for the Preliminary Examination, since they could not afford to wait to stay at school until eighteen. We are pleased that the Examination Council in its present report suggests that a modified examination should be taken at sixteen (possibly to be increased later). The council state that they have introduced this lower examination age because at present many pupils who intend to enter the professions do in fact leave school at sixteen. "We hope, however, that the tendency of the professions to recruit more mature entrants, and other factors, will result in a gradual increase in the

age to which pupils who can profit by extended full-time education will stay at school. As this increase takes effect we should like to see a corresponding increase in the minimum age at which the examination can be taken."

Auditors' Visits to Germany

Visits may now be made to the British zone of Germany and the British sector of Berlin for auditing the accounts of German firms which are subsidiaries of firms in the British Commonwealth, the United Nations, or neutral countries, or are owned by their nationals. The arrangements extend to British auditors and auditors from the United Nations or neutral countries. Visits can be only temporary, for carrying out the specific tasks for which the entry permit is requested. Prolonged or permanent visits are not permitted, nor do the arrangements at present extend to visits by auditors to parts of Germany outside the British zone or British sector of Berlin. Those wishing to visit these areas for auditing purposes should apply in the first instance to the Board of Trade (German Division), I.C. House, Millbank, London, S.W.1, for the necessary application forms.

A Questionable Tax Concession

The Bill empowering the Commonwealth Bank of Australia to acquire the banking business of the private banks contains a provision for discriminatory tax treatment between those banks which enter into voluntary agreements and those whose business is compulsorily transferred. Clause 23 of the Bill provides that any tax on income or profits shall not apply to any compensation money or such part thereof as may be distributed in dividends. Under Australian law the recipients, if they are deemed to have acquired their shares as share-dealers operating for capital profits, would be assessable on the difference between the paid-up capital and the compensation received. The relief is restricted in that from this difference there fall to be deducted (i) any interest received on the compensation money, and (ii) the profits after tax, including declared dividends, earned either between June 30 last or the date of the last accounts and the date of the transfer. Without precise knowledge of the amount of the compensation and the financial position of the banks concerned, it is impossible to assess the degree of encouragement to early agreement which the concession will afford; it is believed, however, that the relief offered to those local banks which would otherwise be compulsorily acquired, is slight, but the view has been expressed that the Anglo-Australian banks will benefit more than local banks. The outcome of this novel scheme will be watched with interest, mixed with considerable doubts on the propriety of tax concessions aimed at stimulating willingness among banks to commit *hara-kiri*.

Saving the Bank Way

The business and professional classes have hitherto remained somewhat outside the scope of the organised activities of the National Savings Committee. They are now invited to save regularly by means of a banker's order form, authorising the bank to invest a fixed amount (any multiple of £1) in national savings certificates every month. The scheme is sponsored by the joint stock banks, and explanatory leaflets are available which include a banker's order form for completion. Irrespective of any holdings of previous issues each person may hold up to 1,000 certificates of the eighth issue. The purchase price of a certificate is 10s., which increases to 13s. in ten years. This represents a rate of interest of £2 13s. 2d. per cent. per annum if the certificate is held for the full period. No income tax is payable. The equivalent gross rate, with tax at 9s. in the £, would be £4 16s. 8d., and to sur-tax payers considerably more. Certificates can be encashed at any time at a few days' notice. The bulk of weekly wage-earners and their families have opportunities for regular weekly saving through savings groups, which now have a total membership of six million. It is hoped that the new scheme will be equally successful among those who can afford to save in rather larger amounts. Incorporated Accountants, whether in practice, in salaried professional employment, or in industry, are asked to support the scheme themselves, and to use their influence in persuading their clients and others to do so.

Government Controls

We draw the attention of our readers to the book *Government Controls—A Summary for Accountants*, the publication of which is sponsored by the main accountancy bodies, including the Society of Incorporated Accountants. The book was prepared by representatives of these bodies and of the Board of Trade, with Mr. Bertram Nelson, J.P., F.S.A.A., as Chairman. It deals comprehensively with Government contracts and sub-contracts, the raw materials and the Board of Trade controls, food controls, control of premises, export licensing, financial controls, purchase tax, war damage insurance and liabilities adjustment procedure. Appendices are included on the Solicitors' Accounts Rules and the calculation of Board of Trade maximum prices. This is an indispensable guide and reference book for the practising accountant and the accountant in industry. Copies may be obtained direct from Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2, at 2s. 6d. net (2s. 9d. post free).

Company Accounts and the New Companies Act

Reprints in booklet form will be available shortly of the specimen company accounts as related to the requirements of the Companies Act, 1947, which we published in our October issue. These have been prepared by F. Sewell Bray, F.C.A., F.S.A.A., and H. Basil Sheasby, F.C.A., F.S.A.A., for the Incorporated Accountants' Research Committee. Consolidated accounts of holding and subsidiary companies are included, and all the requirements of the Act in regard to accounts are presented in a convenient form for ready reference.

The booklet will be published by the Society of Incorporated Accountants with a thick paper cover. It will be obtainable from Incorporated Accountants' Hall at the price of 2s. per copy, post free.

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TEST CHECKS

One of the most significant of modern developments in accountancy is the growth of test checking. Before 1939, the movement away from the complete audit was certainly well in evidence, but it made rapid—even startling—progress during the war. There can be little doubt that we must expect a continued and growing reliance upon the test check procedure—though, it is to be hoped, after some war-time excesses have been repaired. But certain big questions demand answers. Within what limits should the development be kept? What are the broad principles which must underlie the practice of test checking? What are the safeguards upon which the auditor must insist?

It was questions such as these that Mr. E. Cassleton Elliott set himself at the Incorporated Accountants' Course held recently at Cambridge University. At the outset, he emphasised that the validity of the test checking process must not be made to rest upon the shortage of staff, though this factor impelled its war-time adoption. The procedure depends upon the theory of samples: it is fundamental that it should be applied only where a sample check can be said, with confidence, to produce the same results as a complete audit. The growth in the size of the commercial unit, improvements in the records kept by businesses and better systems of internal control—all these are factors explaining a growing reliance upon test checks in general. But in each and every single case where it is to be applied, the procedure must justify itself on the facts. Mr. Elliott would doubtless welcome a far-reaching growth in test checking, where justified in this way, for the relief which it would afford in conditions of continued staff shortage. The decline in the numbers of suitable new entrants is discussed in a Professional Note on page 254. Yet it would not be short of disastrous if staff shortages caused audits to be incomplete in conditions where sampling was inappropriate. Mr. Elliott was undoubtedly right in warning his listeners of the special dangers of the procedure if incautiously applied.

Five broad principles were provided by Mr. Elliott. Firstly, test checks should be used only where there is a well-designed and well-controlled accountancy system in operation in the business. Secondly, the test checks programme must be carefully devised—the sample must conform to a considered plan. Thirdly, independent cross-checks are essential. Fourthly, the audit must remain a complete one over certain of the books, and the test checks must in no event be superficial. Fifthly, the tests must be unexpected and without notice.

A searching inquiry is necessary at the beginning to satisfy the first principle—that is, to ensure that the accountancy system in use is fool-proof. In particular, it is important that staff functions should be well separated. "It is usually easy to see whether success in this regard has been achieved by asking the question 'How many people would have to be involved if fraud or serious error took place?'" The greater the number in the answer, the better the system. It seems to follow that, as a general rule, the test check procedure is more appropriate to the large than to the small firm—but this is satisfactory enough, for naturally it is in the larger units that the economy of the test check is most marked. A complete and proper book-keeping system is, of course, essential. Test check cannot be applied to incomplete records.

In regard to the second principle, the making of the programme and the choice of material not only rests with the auditor himself, but should be known only to him, because by its very nature sampling should take place where least expected. The checks should be so made that every type of transaction is covered. Annual revision of the programme is necessary, so as to ensure variety and to take account of changes in the business. It is often desirable for the test checks to be projected for a month or so after the close of the financial period, so that any abnormal features will be brought to light.

Independent cross-checks must be utilised wherever possible if the third principle is to be satisfied. Control accounts are essential for checking the accuracy of postings to debtors' and creditors' ledgers. Since such accounts are more easily kept where the accounting system is mechanised, it follows that independent cross-checking and—so far as this third principle is concerned—the test checking procedure itself are more easily applied in a mechanised office. Sometimes the physical volume of sales can be checked with production and stock figures. The accuracy of balances on debtors' accounts can to some extent be proved by ensuring that statements are sent out in accordance with a proper system.

The fourth principle demands that tests should be extremely thorough in unexpected places. If errors are found, the whole system should be fully investigated. Certain parts of the audit programme, for example, wages books additions, do not lend themselves at all to the sampling procedure.

The fifth principle requires tests to be taken at unexpected times and without notice to the book-keeping staff. When cash accounts are checked, all cash must be counted at the same time and agreed with the balances. It is desirable that, in checking the wages books, an unexpected visit should be made when wages are being paid.

In his paper at Cambridge, Mr. Elliott dealt with other aspects of test checks—especially in their application to a mechanised accounting system. We may reiterate his statement that in watching for fraud, in test checks as in complete audits, attention must be directed particularly to cash, wages, and stocks or stores. But space forbids our discussing his interesting treatment of the methods to be used in checking these items. More important than the actual technique, which must in any case vary to a considerable extent with the machine accounting system used, are the general underlying principles, summarised by us, to which Mr. Elliott very effectively drew the attention of the Incorporated Accountants who formed his audience.

One word more. The statistical theory of sampling has taken important steps forward in recent years; but the accountancy profession, so far as we are aware, has not taken advantage of any of its results in the practical, but surely very appropriate, field of test checks. Is it not now time that the statistician was brought into conference on this question?

The Teaching of Accounting

By W. T. BAXTER

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The accountants of England (as contrasted with Scotland) are now paying far more attention than ever before to the formal education of their articled clerks. Hitherto almost all instruction in theory has been left to private enterprise, in the shape of correspondence schools. That these are often highly efficient nobody will deny. But, however good it may be, education by post cannot shake itself free from certain weaknesses: students have fewer chances of discussion with their teachers, and of rubbing shoulders with their fellows; they usually do their reading at night, when they are stale after a hard day in the office; and the courses must tend to regard success in the examination hall—not always the same thing as grasp of principle or even sound training in technique—as the major aim.

Joint Universities Scheme

The professional bodies have now begun to experiment with alternative methods of training. In collaboration with the universities, they have set up the well-known scheme whereby students, either before articles or on a "sandwich" system, take a B.Com. or similar degree (with a heavy bias towards accounting) as well as their professional training in a space of just under six years.

The scheme is entirely voluntary. Its main value to students, one imagines, is that it provides them with long periods for thinking and reading, with fresh minds, and in stimulating surroundings. The test of the scheme will be whether the men trained by it will, in the long run, prove better at their professional work, and get more fun and interest out of life, than accountants trained in the routine way.

In Scotland, a compromise method has been in force for over twenty years. Apprentices must attend university classes in at least three subjects—accounting, law and economics. The classes are held either before 10 a.m. or after 5 p.m., and so a small amount of free time must be granted by the employers; but apprentices have still to do their reading, etc., at the end of the day's work.

The English scheme is, very properly, cautious and tentative. No one expects that it will appeal to all articled clerks; it may eventually attract ten or twenty per cent. of those entering the profession. But it has the great advantage of enabling the accounting bodies to experiment with better ways of education; also it may give us what we are lamentably lacking in—men qualified to act as teachers of accounting.

It seems remarkable that the scheme should have been set up during the worst years of the war. One cannot but admire men who could summon up the necessary enthusiasm and energy to start these projects at such a time.

Training for Business Administration in America

The new scheme may reasonably be regarded as only one aspect of a much bigger experiment. British people are at last beginning to recognise that the whole field of business administration is a matter of lively concern if we are to earn our bread and butter in future years; further, that business administration is a difficult subject, which can to some extent at least be learnt in university class-rooms.

The contrast between the British and American attitudes on this point is staggering. In U.S.A., business administration in some form or other is taught at over 100 institutions, with at least 80,000 students. The best-known American training body, Harvard Business School, alone produces 800 graduates a year—i.e., ten times the British output of graduates in management. I have myself attended two of the American universities—the Wharton School in Philadelphia, and Harvard—and I can testify to the gruelling thoroughness of their courses and to their almost Teutonic concepts of what constitutes an adequate day's work.

To what extent is America's pre-eminence in industry due to her hordes of graduates in business administration? There are, of course, many other factors that contribute to her pre-eminence; still, we British people will be foolish if we do not try to find out whether education in the arts of management cannot increase our productivity.

The wholesale scale on which accounting is taught in U.S.A. has led to a number of interesting results. For good or ill, the training of American accountants is much more academic than in Britain. Perhaps as a consequence, the profession seems more receptive to new ideas in U.S.A. than is the case elsewhere. Its official "statements of accounting principles" preceded the corresponding British statements by a decade, and were largely the work of noted teachers like Professors Hatfield (of California) and Sanders (of Harvard). Professor Hatfield, whose text-book is outstanding, has performed the remarkable feat of proving that articles on accounting need not be bereft of humour. We should also pay tribute to a monumental work by Professor Bonbright, of Columbia University—*The Valuation of Property*; this erudite and sometimes scathing analysis of legal and accounting practice ought to be the basic handbook of the advanced student.

American teachers of accounting are, thanks to their numbers, able to produce a bulky quarterly review, while for those who like such things there are periodical jamborees where members read papers and swop ideas.

Organisation of an Accounting Department

In any discussion on the best organisation of a university department of accounting, the main issue

is whether the teachers should be whole- or part-time. On the one hand, it is hard to see how a person who is responsible for running a university department (unless it be very small and simple) can pay adequate attention to all the teaching, advising of students, and committee work that such a job entails—to say nothing of his reading and research—unless he is full-time. On the other hand, your full-time teacher will tend to get out of touch with the profession and so may not know all the latest wrinkles, and he runs the risk of losing his head in the clouds; though most branches of accounting are fortunately fairly sedate in their rate of change, in some branches (such as income tax) an intimate knowledge of last-minute practice is most desirable. The only ideal solution is to appoint as professor of accounting a pair of Siamese twins, one half to labour as a teacher, and the other in practice. As this solution is not usually feasible, we must make the best of things by appointing a mixed staff. I venture to suggest some such scheme as the following. At least one person—preferably the head of the department—should be full-time; he will do the bulk of the lecturing in straightforward accounting, and will attend to the organisation of the department. His work should be supplemented by a number of part-time assistants; these will include young men to act as tutors, help with correction, etc., and also men of the highest professional standing to give advanced lectures in specialised fields such as income tax. This mixture should yield the desired blend of pedagogues and men of affairs.

Since the joint scheme was inaugurated, two universities (London and Birmingham) have set up full-time chairs, and a number of other provincial universities are in course of creating responsible posts. Three South African universities have full-time professors of accounting. As in so many other fields, however, progress may be held up by the dearth of men qualified for the jobs.

As a fortunate by-product of the joint scheme, most universities will be aided by advisory committees of local accountants. Such committees may well prove valuable links with the profession—not only in such matters as the nature and scope of teaching, but also in the placing of graduates in suitable offices, etc.

Part-time Study

No less controversial is the question of whether the universities ought to cater for part-time students of accounting. From the standpoints alike of student and university this plan is not ideal. But should we be adamant in ruling out any second-best? In a democratic age, ought we not to cater for the lad whose means do not allow him to follow the longer and more costly plan? What about the youth who finds out only after serving articles for some time that he has a relish for higher study and would profit from attending university classes?

Such questions lead me to wonder whether the universities ought not to experiment tentatively with part-time courses. That opinion is, of course, purely personal, and is not envisaged in the official scheme. I have already mentioned that Scottish accountants insist on their apprentices attending part-time classes. In South Africa, too, voluntary schemes have been provided at Cape Town, Johannesburg and Durban, and have shown that, whatever its cultural shortcomings, part-time study can give an articled clerk all that he needs for his professional examinations (as well as for a B.Com. if he wants a degree into the bargain); in Durban, the part-time classes won such good opinions that they have been made compulsory by the local society of Chartered Accountants.

Whether or not part-time classes are given is a matter for each university to decide. Many universities would be severely strained if they had to provide lectures in the evening. At the London School of Economics, however, it has long been the policy to duplicate the bulk of the degree courses: as part of this general programme, classes in accounting, etc., can be taken in the evenings.

An interesting variant on these arrangements is being tried out for the first time at Cardiff Technical College. Classes in accounting and law are held in the day-time, and a number of firms grant their articled clerks the privilege of attending. This seems a most valuable experiment. Much could be done to improve our standards of education if clerks were given one free day a week—or even half a day—during term time, for, say, the year preceding each of their examinations.

General versus Specialised Degrees

Where a young man wants to take a degree before becoming articled, is it certain that his best plan is to enroll for the new B.Com. with its specialisation in accounting? If he is to spend most of his life at that subject, ought he not to spend these three heaven-sent years in developing some other interest? Will he not for that matter turn out a better accountant if he has a good background and intellectual training in some totally different sphere?

I think that this is largely a matter for individual choice. I should certainly not discourage the youth who wants to take his degree in history, or science, or anything else that draws him strongly; at the same time, I should stress the helpfulness of doing at least some work in the fields bordering on accounting, e.g., economics and law. After he has taken his general degree and become articled, I should suggest that he might also attend one or two part-time classes in accounting. In this way, he could make the best of both worlds. And here is an extra argument for holding part-time classes.

Technique or Education ?

By far the most weighty problem on which an accounting teacher must make up his mind is whether to stress technical proficiency or intellectual development. Should we drill our students in bookkeeping exercises until they become as slick, neat, and accurate as clerks, or should we dwell on interesting problems of principle, in the hope of stimulating their curiosity and training their minds?

There can be no doubt that the second aim is the only one worth considering, and the only one that a university should tolerate. And on this point there is no divergence of opinion between the universities

and the profession; to judge from views expressed by delegates to the recent joint conference at Oxford, accountants want our teaching to be as broad and educative as possible.

It would be a thousand pities if any other policy were followed. Take for instance the teaching of income tax. Here the choice is between cramming the students' memories with detailed regulations, lists of allowances, etc. (many of which will go out of date with the next budget), or of instilling an appreciation of principles—say, of the law concerning the nature of income. Once he is in the rush of practice, the young man may never again have time to digest these principles. We must help him to seize his chance while he still has leisure. If he acquires some understanding of the whole fabric, he will have little trouble in picking up current regulations and points of detail.

Still, concentration on the abstract can be carried too far. The main concern of accounting teachers must therefore be to achieve the best possible compromise between the over-theoretical and the over-practical approaches. On our success at this task hinges the whole future of the new scheme.

Investment Systems

[*Contributed*]

The bull market which lasted from 1940 until the spring of this year appears to be at an end. The *Financial Times* industrial share index, which reached a peak of 140.6 in January of this year, had by mid-October descended to a new low level of 110·4, or about 21.5 per cent. below the top. The uncertainties which have confronted us for so many months, particularly the balance of payments difficulties and the disappointing level of coal production, with all that this implies on industrial activity in general, have found a reflection in share prices. At the same time there exists a high degree of inflationery potential which will be aggravated by reductions in imports and the intensified export drive. Investors are finding it difficult to decide what course of action they should adopt: inflationary tendencies should benefit equity shares, but at the same time would-be buyers are hesitant in view of the Autumn Budget and probable winter stoppages of production which may be necessary owing to the fuel situation.

In these circumstances, particular interest attaches to two books which have recently been published in an attempt to help and guide investors with the many and perplexing problems which confront them. The first is *Successful Investment* by James W. Bell.* The author endeavours to give advice to the inexperienced investor with small sums at his disposal. Simplicity is said to be the keynote of the book, and no quarrels can be made on this claim. The author deals with the small investor whose principal aim is capital appreciation without speculation. The argument in the book can be summarised on the following lines. All or most of even the best-class industrial shares are subject to seasonal fluctuation in market prices. By studying the movements of certain selected good class equities month by month over a period of years, one can pick out the shares which show the largest short-term fluctuations, and take advantage of this by endeavouring to buy at the low point and sell at a point approaching the peak of the temporary movement. Profits of, say, 10 per cent. can, according to the author, be made on this basis in a relatively short time if one is careful enough in the choice of the investments. The essential basis of the book is that small profits and quick returns should be the aim. While the author himself says that working on this basis he has achieved very satisfactory results, the arguments are unconvincing. No mention at all is made of the possibility or the advisability of selling unsuccessful investments at a loss. The only reference to this possibility is a remark that if the investment is well selected—and to be just to Mr. Bell, it must be mentioned that he gives some excellent hints on points to be looked for in the selection of investments —and the purchase nevertheless should prove unfavourable, the investment will pay for its keep, and an opportunity will occur at some time in the future to get out without a loss. This seems to ignore the possible existence of a steadily declining market for several years, during which time the investor's money would be immobilised unless the securities were sold at a loss, which would increase in proportion to the time they were held.

No criticism that it ignores long-term fluctuations can be made as far as concerns another recently published book dealing with investments. *The Hatch System: A Primer for Investors** is written by Mr. Hargreaves Parkinson, and puts in book-form for the first time the investment system so successfully (if mythically) perfected by Mr. Cyrus Q. Hatch. Indeed, the basis of this book is to show how advantage may be taken of big long-term fluctuations in prices, and seasonal and relatively small movements may be ignored. The fictitious Mr. Hatch invested his money on the theory (fully justified by statistics going back as far as 1871) that a significant change in the general market trend occurs if a movement of 10 per cent. above the trough, or of 10 per cent. below the peak, of the market is registered by the index selected for the purpose of operating the system. As nobody rings a bell when the market turns, and as the great Nathaniel Rothschild is said to have amassed a fortune on the Stock Exchange by always buying too late and always selling too soon, this method of using the arbitrary 10 per cent. as an indication for the significance or otherwise of a market movement appears to be sensible, and, working on available statistics for decades, almost always reliable. The method can be applied to suit nearly all investors

* *Successful Investment*, by James W. Bell, published by Sir Isaac Pitman & Sons, Ltd., London, price 5s. net.

* *The Hatch System: A Primer for Investors*, by Hargreaves Parkinson. Published by Sir Isaac Pitman & Sons, Ltd., London. Price 15s. net.

according to their own particular needs. Attention may here be mainly confined to what Mr. Parkinson describes as the elementary or market average method, for this entails all the essentials of the system, and its adaptation to various needs will be quite obvious to the fairly experienced reader. The investor selects his portfolio of investments in industrial and other equities, and keeps a record of the movements of a representative index of security prices. If the price is falling, he gives instructions to his broker to buy the securities at 10 per cent. above the lowest level they have reached, altering the limit downwards every time the securities fall below the previous lowest point. When a "significant" change in the market takes place, and the securities are actually purchased, he gives a stop loss limit to his brokers to sell the securities in the first instance at a price 10 per cent. below the purchase price. Should the market move up, the stop loss selling limit is altered every time to conform with a price of 10 per cent. below the peak level the securities concerned have reached since their purchase. Obviously by the application of this method of investment the investor is likely to make large sums if he catches a cyclical movement on the up-grade, while in the worst case his loss is limited to 10 per cent., plus dealing expenses. The elementary method can be used in two ways: in what Mr. Parkinson describes as the arithmetical method, *i.e.*, the amount invested at the beginning of each turn remains the same, or the geometric method, in which the amount invested at the commencement of each turn is the full proceeds of the previous sales. By assuming that an investor operated this method in the London market between January, 1925, and December, 1944, using the London and Cambridge Statistical Service industrial share index as his guide during the 20 years of operations, the investor would have been in a market only four times. If he invested in the securities used in the compiling of that index, three of these turns in the market would have yielded him on the average profits of 63 per cent. per turn, while his loss on the unsuccessful turn would have been limited to 3.4 per cent. Using the geometric method, an initial capital of £1,000 in 1925 would have become £3,976 by 1944.

The book goes into all the nice refinements of the system and deals with a great many of the points which cannot emerge clearly from a brief *résumé* such as given above. Obviously, the experienced investor will make comments and perhaps reservations on the practical implications of following the system. The present writer's reactions on reading the first few chapters of the book were that the system looked beautiful on paper but might be doubtful in practice. Actually, Mr. Parkinson touched on every one of the problems which lingered during a survey of the first few chapters, and when the book was finished, the writer's opinion about its practical value had changed completely. In fact, the practical difficulties are all dealt with so painstakingly that, in the writer's view, an investor following this system would make appreciable profits in the long term, though the figures may not be quite as striking as in the example given, owing to the fact that in practice he would have to deal at prices at "best" when the significant 10 per cent. movement has occurred in the market movement. Dealing expenses are more than sufficiently covered by dividends received during the period when the investor is in the market.

Obviously this system can be adapted to suit the more exact requirements of the professional investor who operates in a particular market, or who is interested in shorter term fluctuations. This is all dealt with by Mr. Parkinson in the latter part of the book. Similarly, he deals with such points as the advisability of "switching" in a portfolio. The first part of the book, where the elementary system is discussed, is especially interesting, not only because by a proper understanding of this section one could more or less work out for oneself how to adapt the system to suit individual needs, but because it is these chapters which bring to the notice of the small investor with no leisure to spend on a constant and careful examination of his holdings, a method of participating in general market prosperity when the cyclical movement is on the up-grade. The beauty of the system is the automatic way in which it can be operated in practice. It operates when the investor is on holiday or when he is ill. The only requirement is the co-operation of a good and reliable broker, who can be persuaded to do the necessary bookkeeping to determine the limits at which the Hatch investor sells or buys. It is possible that a broker may charge a small service fee for this work, but it would be well worth the cost.

On the whole, most professional men are apt to depreciate any investment system, but Mr. Parkinson's system does not purport to be an aid to speculation. It is concerned with long term investment. The experience of the past suggests that capital values over decades always tend to increase: the system, by showing a method of discontinuous investment, enables the greatest benefit to be reaped from the long-term appreciation in values, while allowing for the intervening trade cycle fluctuations. Anyone following this system is assured of being in the market during the greatest part of the upward trend, and being out of the market during most of the time when values fall. Its application is simple and automatic once a decision on the contents of the portfolio is made. The only respect in which professional advice is necessary is the choice of the contents of the portfolio, and as any good broker will be able to tell which first-class industrial equities are subject to fairly large cyclical fluctuations, but are nevertheless sound businesses, with good long-term prospects, the possibility of losing money through an error of judgment on the part either of the investor or of his professional adviser is limited.

There is, however, one recent trend which should be considered when discussing the validity of the Hatch theory. It is true that in the past the 10 per cent. rule worked very well and gave satisfactory results, but in recent months markets have shown an over-sensitiveness inasmuch as comparatively small tendencies in buying or selling have caused relatively large movements in price levels. This is due to the fact that jobbers, for various reasons, are short of capital, and consequently they cannot keep a position of buffer

stocks to smoothe fluctuations. This lack of jobbers' capital has been brought to the foreground during the last few months, when not only large price fluctuations were seen but at times it was difficult to sell (and conversely, when the trend momentarily reversed, to buy) securities: this applied not only to the less well-known lines, but at times even to some of the industrial leaders. In view of this more recent development in technical conditions, one would be justified in querying whether Hatch's 10 per cent. rule will prove to be as reliable in the future as it undoubtedly was in the past.

All long-term investors should study this book carefully. Even if they do not follow the system, it will give valuable guidance in appraising long-term movements on the stock markets.

TAXATION

Farm Animals

In agreement with the farmers' organisations, the Treasury have had made statutory under the Finance Act, 1947, the treatment of herds, etc., for income tax and profits tax purposes. In the main, the Act follows the existing arrangement, which was agreed a year or two ago.

The provisions concern the treatment, for the purposes of the two taxes, of animals and other living creatures kept for the purposes of farming or of any trade.

For income tax, not only will the provisions affect computations under Case I, Schedule D, but also those for the purposes of a claim for reduction of a Schedule B assessment under Rule 6, computations of milk sellers and cattle dealers under Rule 4, Case III, Schedule D, and loss claims.

The General Rule

Animals kept by a farmer for the purposes of his farming are to be treated as trading stock, with the proviso that animals forming part of production herds can, if he so elects, be treated as capital.

Interpretation, etc.

(1) Animals kept wholly or mainly for the work they do in connection with the carrying on of the farming are not included in the provisions, i.e., they continue to be treated as capital employed in the business, replacements being allowed against profits, calculated in the same way as replacements in a herd.

(2) The expression "herd" includes a flock, and any other collection of animals, however named.

(3) Immature animals kept in a hard are not treated as forming part of the herd, unless:

(*a*) the land on which the herd is kept is such that animals which die or cease to form part of the herd cannot be replaced except by animals bred and reared on that land; and

(*b*) the immature animals in question are bred in the herd, are maintained therein for the purpose of replacement, and are necessarily maintained for that purpose.

References to an animal being added to a herd include references to an immature animal which is kept in the herd becoming a mature animal. Not more immature animals are to be treated as forming part of a herd than are required to prevent a fall in the numbers of the herd. Female animals are deemed to become mature when they produce their first young. Laying birds become mature when they first lay.

(4) The expression "a production herd" means a herd of animals of the same species (irrespective of breed) kept wholly or mainly for the products which they produce for him to sell, being products obtainable from the living animal, i.e., young of the animal, and any other product obtainable from the animal not being one obtainable only by slaughtering the animal itself. The products produced for sale must be of the same kinds in the case of all the herds.

(5) The provisions do not apply to any animal or other creature kept wholly or mainly for public exhibition or racing or other competitive purpose.

Elections

An election for the herd basis applies to all production herds of a particular class kept by the farmer making the election. It must be made in writing and specify the class of herds to which it relates; and be made not later than twelve months after the end of the first year of assessment after 1946-47 for which the farmer is chargeable under Case I, Schedule D, or Rule 4, Case III, or is given relief under Rule 6, Schedule B, or Section 34, Income Tax Act 1918, etc. If, however, the farmer kept a production herd of the class in question during the year ended April 5, 1947, and the profits are chargeable for 1947-48 under Case I or Rule 4, Case III, the election must be made by April 5, 1948.

The election is irrevocable, and applies also to profits tax for all chargeable accounting periods not falling wholly before the period by reference to which the profits are computed for the year of assessment for which the election first operates.

Effect of Election

The initial cost of the herd and of any additions is capitalised.

If an animal is added to the herd from trading stock, the cost of breeding and rearing it to maturity (or where relevant its cost of acquisition plus cost of rearing to maturity) must be credited to revenue and debited to the herd.

Where an animal dies or is taken out of the herd, and is replaced by another animal, cost of the replacement (except to the extent that such cost is an allowable expense apart from these provisions), less the proceeds of sale, is chargeable to revenue. If, however, the replacement is but a better-quality animal, the amount debited to revenue is not to exceed the cost of an animal similar to the one replaced. Where an animal is slaughtered by official order as a result of disease, and the replacement is of worse quality, the amount to be credited for proceeds is not to exceed the cost of the replacement.

When a herd is sold as a whole and replaced, the above provisions apply to the number of animals in the old or new herd, whichever is less.

If a herd is sold and not replaced, or part of a herd is sold on a substantial reduction in numbers, any profit or loss is to be ignored. But if, within five years of the sale, the seller builds up the herd again, the replacement provisions will apply, save that a replacement of a compulsory sale by a worse animal will not involve a credit of profit on sale if that exceeds the cost of the replacement.

The last provisions mentioned above cover cases such as a tenant farmer being given notice to quit or an owner occupier being dispossessed of the farm, having nowhere else to go. If subsequently he starts a new herd, he is quite likely to get inferior stock, particularly where he has spent a lifetime in building up a pedigree herd, e.g., a new milk herd will have to pass T.T. tests. In such a case, the Treasury cannot be called on to repay

tax on better replacements, nor can the farmer be charged tax where the replacements are worse than the herd sold.

If an animal is sold out of the herd in other circumstances, any profit or loss goes to revenue, the sale proceeds being compared with cost (including cost of rearing). The same applies where a herd as a whole is replaced, to the extent that the number of animals in the new herd is less, but not substantially less, than that in the old.

Insurance and compensation moneys, where relevant, are regarded as proceeds of sale.

Special Cases

Replacement of a herd after five years is regarded as a fresh start, as if the farmer never had a herd before.

Where a herd is transferred by way of gift or otherwise than at the "open market" price, and there is mutual control on the sale, or the main benefit or one of the main benefits which might have been expected to accrue was a benefit resulting from obtaining the right to an election or ending an election, or from an election having a greater or less effect, the like consequences are to ensue as would have ensued if the sale had been at open market price.

Taxation Notes

Profits Tax

Many readers confess that they have been puzzled by the Finance Act, 1947, on the question of the limitation in the charge on distributions of profits, in view of the reference in Section 34 (2) to cases where the distribution exceeds the profits.

It is necessary to go back to the charging section, *viz.*, Section 30. This imposes the tax at $12\frac{1}{2}$ per cent. (sub-section (1)) with a relief for non-distribution of $7\frac{1}{2}$ per cent. where the net relevant distributions are less than the profits of the chargeable accounting period (sub-Section (2)).

Turn now to Sub-section (3), which provides that if the net relevant distributions are greater than the profits of the chargeable accounting period, there shall be charged for that period in addition to the other profits tax (if any), tax at $7\frac{1}{2}$ per cent. on the difference (termed a "distribution charge"). It goes on to say, however, that the additional tax so charged shall not, when added to the totals on which additional tax is charged for previous periods, exceed the total of the differences in respect of which reductions have been made under sub-section (2) for previous periods.

As profits tax operates from January 1, 1947 (previously it was National Defence Contribution), it seems clear that in no case can the cumulative profits tax from January 1, 1947, to any date exceed tax on the profits for the same period of years.

Illustration: Company controlled by directors.

	Years ending December 31	1947 £	1948 £	1949 £
	Trading Profits (adjusted except for directors' remuneration)	14,000	3,000	17,000
(Sec. 32)	Investment Income... ...	3,000	2,600	3,500
	Directors' Remuneration ...	5,000	4,000	6,000
		22,000	9,600	26,500
(Sec. 32)	*Less* Franked Investment Income (F.I.I.)	2,000	2,000	3,000
		20,000	7,600	23,500
(Sec. 45)	Maximum Directors' Remuneration	3,000	2,500	3,525
	Profits excluding F.I.I. ...	(*a*) £17,000	£5,100	£19,975
	As above	22,000	9,600	26,500
(Sec. 45)	Maximum Directors' Remuneration	3,300	2,500	3,975
	Profits including F.I.I. ...	(*b*) £18,700	£7,100	£22,525
	Profits excluding F.I.I. Abatement	(*a*) 17,000	5,100	19,975
(Sec. 33 (2))	$\frac{(a)\ 5100}{(b)\ 7100}\times\frac{£12000-£7100}{5}$		704	
	Profits chargeable	(*c*) £17,000	£4,396	£19,975
	Profits distributed to members:			
	Dividends...	12,000	12,000	12,000
	Excess remuneration of directors (all members)	2,000	1,500	2,475
	Gross relevant distribution	£14,000	£13,500	£14,475

			1947	1948	1949
	Net relevant distributions:				
(Sec. 34 (2))	$\frac{17,000}{18,700}\times 14,000=$		(*d*) £12,727		
	£4,396+£(13,500—7,100)=			(*d*) £10,796	
	$\frac{19,975}{22,525}\times £14,475=$				(*d*) £12,835
(Sec. 30 (2) (*e*)	Profits not distributed	(*c*)-(*d*)	£4,273		£7,140
(Sec. 30 (3))	Excess distribution	(*d*)-(*c*)		£6,400	
	Profits Tax at $12\frac{1}{2}$% (on (*c*))		£2,125 0 0	£549 10 0	£2,496 17 6
	Less Relief for non-distribution $7\frac{1}{2}$% on (*e*)		320 9 6		535 10 0
	Distribution charge, $7\frac{1}{2}$% on (*d*)-(*c*) but limited to $7\frac{1}{2}$% on (*e*) for previous C.A.P.s (in this case 1947 only) ...			320 9 6	
	Profits Tax payable		£1,804 10 6	£869 19 6	£1,961 7 6

It will be seen that the over-distribution in 1948 has no effect on 1949.

In the above example, profits made prior to 1947 have been drawn on to pay the dividends in 1948, and it would not be reasonable to charge them with the distribution charge. A similar position may arise where loans are made to directors or other members of a director-controlled company, where the loan plus other "distributions" exceed the profits since January 1, 1947.

Profits Tax. Loans in Director-controlled Companies

Some peculiar results arise under Section 36 of the Finance Act, 1947. If the company is controlled by the directors, any amount applied, whether by way of remuneration, loans or otherwise, for the benefit of any person is deemed to be a distribution to that person of the amount. (It is well to note the words earlier in the Section to the effect that only cash bonuses or distributions of assets rank as distributions; capitalisation of profits by way of bonus shares does not seem to fit in; it is not a dividend in the accepted sense, though this may be arguable. The references to "amounts" and "assets" imply segregation of assets, not mere book entries.)

There is an express provision that no sum applied in repaying a loan, or in reducing share capital, is to be treated as a distribution (Section 36); and total distributions to members, not being allowable deductions in computing profits, are alone to be considered (Section 35). A loan to a non-member therefore is not a "gross" distribution. Likewise, interest paid to a member on a loan, being an allowable deduction, is not a distribution, unless the member is a director (other than a whole-time service director (R.I., Pt. III, 8th Sch.)), when the interest is disallowed by R. 4, 4th Sch., F.A. 1937.

Where a loan to a member is repaid, Section 36 provides for relief, but not necessarily whole relief, for the previous charge.

Illustration : Director-controlled company, but directors' remuneration all allowable.

Profits including Franked Investment Income (F.I.I.))	£20,000
F.I.I.	5,000
	£15,000
Distribution : Dividends...	10,000
Loan to director	2,000
	£12,000
Net do. : $\frac{15,000}{20,000} \times$ £12,000=	£9,000
P.T., 12½% on £15,000=	£1,875
Less Non-distribution relief 7½% on £6,000	450
	£1,425

Following year :
Assume same profits, but loan repaid.

Increase in P.T. for above year as a result of the loan, 7½% on $\frac{15,000}{20,000}$ ×2,000=£112 10 0.

Gross relevant distribution, second year :	
Dividends	10,000
Less amount tax on which at 7½% is £112 10 0	1,500
	£8,500

Net relevant distribution :			
$\frac{15,000}{20,000} \times$ £8,500=	£6,375		
P.T. 12½% on £15,000	£1,875	0	0
Less Non-distribution relief 7½% on £8,625=	646	17	6
	£1,228	2	6

It is apparent from the above that although the loan gave rise to additional tax of £112 10s., its repayment only gives relief on $\frac{15,000}{20,000}$ths thereof. This arises from the words of Section 36 (3) :

> " Where (*a*) a loan has been treated as part of the gross relevant distributions to proprietors for a chargeable accounting period ; and (*b*) as a result the amount of tax payable for that period has been increased, then, if the loan is repaid, the gross relevant distributions to proprietors for the period in which the repayment is made . . . shall be treated as reduced by the amount corresponding to the increase, *i.e.*, by the amount tax on which at 7½ per cent. would be equal to the increase. . . ."

It is the deduction from gross distribution of an amount corresponding to tax on the *net* distribution that gives rise to the anomaly, which may be emphasised by the different fraction that will apply in reducing gross to net in the respective years. This sub-section requires amendment to give justice.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law

Income-tax—Charity—Non-profit-making company sponsored by Arts Council of Great Britain—Whether presence of a sub-clause in its memorandum precluded it from being a charity entitled to exemption under Section 37 *I.T.A.*, 1918, *Section* 30 (1) (*c*) *of F.A.*, 1921, *and Section* 24 *of F.A.*,1927.

The position in *Tennent Plays, Ltd.* v. *C.I.R.* (K.B.D., July 28, 1947, T.R. 321) was peculiar. The Council for the Encouragement of Music and the Arts—C.E.M.A.—had been set up in 1939. The Pilgrim Trust made a grant of £25,000, and in April, 1940, the Treasury provided £50,000. In 1945, its title was changed to that of the Arts Council of Great Britain, and it was continued as a permanent organisation incorporated by Royal Charter. The appellant company was incorporated in 1942 under the auspices of C.E.M.A., which restricted its recognition and assistance to

> " properly-constituted non-profit-making companies and bodies functioning under charitable trusts,"

and the only thing which stood in the way of its being entitled to the same exemption as was given in *Royal Choral Society* v. *C.I.R.* (1943, 22 A.T.C. 282, 25 T.C. 263) was a sub-clause in its memorandum :

> " (*d*) As ancillary to the foregoing objects of the company and with a view to finding income and funds for the purposes of the company, to carry on business as theatre, music-hall, concert-hall, dance-hall, ballroom, public hall, cinema, and picture-house proprietors and managers,"

a sub-clause said to have been suggested by the *Commissioners of Customs*, to whom successful application had been made for exemption from entertainments tax. The Special Commissioners and Macnaghten, J., were in agreement that the objects set out in the sub-clause were fatal to the claim, the latter saying that the founders of the company were certainly not wiser than the men of Troy in the matter of the wooden horse.

Schedule A—Air-raid shelter—Whether rent or other consideration for lease greater than if shelter had not been provided—F.A., 1938, *Section* 17 (1).

Associated London Properties, Ltd. v. *Williams* (K.B.D., July 28, 1937, T.R. 319) raised a question on the provision of an air-raid shelter. Appellant owned a large building with separate tenements let to various tenants. A large part was let to the Commissioners of Works and Public Buildings in 1937 and 1938 by five separate leases, each being for 21 years. In 1940, appellants were requested by the Commissioners to construct an air-raid shelter and the latter agreed to pay during 12 years from the date of completion of the shelter a sum equal to 8 per cent. of the capital cost. This amounted to £36,117 and the annual payment amounted to £2,889. The agreement provided that the sums should be deemed to be in addition to the aggregate rents under the leases.

By Section 17 (1) of F.A., 1938, it was provided that no regard should be had under Schedule A to any room or other part of the building provided solely for air-raid protection and not occupied or used for any other purpose unless the building or any part thereof was let and the rent or other consideration was greater than it would have been had the room not been provided. The General Commissioners had held that the Schedule A should have regard to the shelter ; and Macnaghten, J., affirmed their decision. He said he thought the additional payment was " rent," but it did not matter whether it was or not, because, if not rent, it was " other consideration."

E.P.T.—Capital employed in standard period—Funds raised by means of bills on the London Money Market—Whether borrowed money.

C.I.R. v. *Rowntree & Co., Ltd.* (K.B.D., July 25, 1947, T.R. 315) was an appeal against a decision of the Special Commissioners. The company had obtained temporary advances by means of bills on the London money market. The usual procedure was followed, agreement being come to with an " acceptance house " which for a fixed

rate of remuneration agreed to accept bills drawn by the company up to a fixed amount. The currency of the bills was six months. When once the bills were accepted —which meant that the acceptance house guaranteed the solvency of the drawer—they became saleable in the discount market. All the time, however, they remained debts of the company payable at the maturity dates; and how the funds obtained by the company by means of this machinery could be other than "borrowed money" passes comprehension. Macnaghten, J., affirmed the decision of the Special Commissioners. Borrowing by means of such bills used to be the normal mercantile method, but of recent times has been largely superseded by the bank overdraft. Lately, however, there has been a revival of the bill owing to its comparative cheapness.

Income-tax—Children's settlement—Trust for grand-children living on vesting date—Whether trust void for perpetuity.

In *Aked* v. *Shaw* (K.B.D., July 23, 1947, T.R. 313), the father of the appellant had declared the trusts on which trustees were to hold certain shares transferred to them on January 5, 1940. The settlement provided that the trust fund and the income thereof and all accumulations should be held on trust for children of the appellant living on the vesting date, sons and daughters sharing in unequal proportions. The vesting date was the earliest of three dates, *viz.*, January 1, 1970, or the 21st anniversary of the death of the last survivor of the children of the appellant, or such earlier date as the trustees should fix. The question was whether the settlement was void because of the rule against perpetuities; and, as the beneficiaries included not only the three children living at the date of the settlement, but any others born afterwards, Macnaghten, J., held it was obvious that the rule was broken. The claims to repayment were, therefore, refused.

E.P.T.—Investment income—Income from patents—(1) Inventions of company's research department and used in business—(2) Inventions purchased and used in business —(3) Inventions discovered by employee and patent granted jointly to him and the company, but not used in business— F.A., 1937, Sch. IV, para. 7; F. (No. 2) A., 1939, Sections 12 (4), 14, Sch. VII, Part I, para. 6.

Tootal Broadhurst, Lee Co., Ltd. v. *C.I.R.* (C.A., July 18, 1947, T.R. 297) was noted in our issue of February last. In the Court of Appeal, affirming the judgment of Atkinson, J., it was held that royalties from the first two classes were trading receipts, but, reversing his judgment, that those from the third class were also. In other words, it was held that although the last-mentioned invention was not used for the purposes of the appellant's business, it was used in the textile industry, and, in the business sense of the word would not be deemed to be an "investment." Leave to appeal to the House of Lords was refused. The leading case as regards the present tax is that of *C.I.R.* v. *Desoutter Brothers, Ltd.* (1946, 1 All E.R. 58, 24 A.T.C. 281), in which the Master of the Rolls contrasted the case of a member of the Bar receiving royalties from a patent and a manufacturer. The former would be "merely a passive person."

> "The other example is the manufacturer who can, if he likes, *at any moment* exploit his monopoly in a number of different ways—either by manufacturing himself, or by vending himself, or by allowing somebody else to manufacture. . . . The mere granting of such licences does not seem to me to take the income out of the category of income of the business."

In the present case the company and the person connected with it had transferred their interest to the assignees in return for a royalty so that there was no possibility of "the other example" of Lord Greene's judgment materialising. At the same time, although his judgment was held not to lay down any general principle, it is in the present writer's opinion difficult to distinguish in principle the position of Lord Greene's member of the Bar receiving royalties from a patent and a textile manufacturer going to the expense of patenting an invention which, although of use in the textile industry, has nothing whatever to do with his own manufacturing business, and then assigning it to someone in return for royalties. The one seems to be as passive as the other; but a better comparison would be one where the member of the Bar did the patenting himself.

Income-tax—Charity—Society for suppression of vivisection—Whether society entitled to claim relief from income-tax as a charity—I.T.A., 1918, Sections 37, 40— F.A., 1925, Section 19.

National Anti-Vivisection Society v. *C.I.R.* (House of Lords, July 2, 1947, T.R. 273).

The House of Lords (Lord Porter dissenting) affirmed the judgment of the Court of Appeal which had affirmed (the Master of the Rolls dissenting) the judgment of Macnaghten, J., who had reversed a decision of the Special Commissioners. These last had allowed the claim by the Society to exemption, holding themselves bound by *In re Foveaux* (1895, 2 Ch. 501).

In the House of Lords, a monumental judgment by Lord Simonds against the Society's recognition as a charity was an outstanding feature of the hearing, although the case would seem to have resolved itself very much into a legal duel which resulted in the majority endorsing the views of Russell, J.—afterwards Lord Russell of Killowen—in *In re Hummeltenberg* (1923, 1 Ch. 237):

> "If a testator by stating or indicating his view that a trust is beneficial to the public, can establish that fact beyond question, trusts might be established in perpetuity for the promotion of all kinds of fantastic (though not unlawful) objects, of which the training of poodles to dance might be a mild example. In my opinion, the question whether a gift is or may be operative for the public benefit is a question to be answered by the Court by forming an opinion upon the evidence before it."

The closing words of Lord Simonds' judgment were as follows:

> "If your lordships are satisfied that the law as laid down by Mr. Justice Russell, as he then was, in *In re Hummeltenberg* is correct and the decision of this House confirms it, I believe that it will be a useful landmark in the history of the law of charity."

The decision will, of course, convert no one with definite views upon the subject of vivisection; but the great majority of taxpayers, whilst neutral upon the ethics of a difficult question, would probably agree with a result which will preclude the Society from obtaining what would have been, in effect, financial support from the State, and will also prevent other claims of the same type. Nevertheless, the question whether the object of a trust is beneficial to the public or not is scarcely one where the judiciary would seem to have any special qualifications for giving a right answer, and what may be beneficial to-day may be the reverse to-morrow.

FINANCE

The Month in the City

Renewed Cheap Money Drive ?

Mr. Dalton's remarks at the bankers' dinner have aroused a general expectation that the Chancellor may be preparing for a renewed drive towards cheaper money. On this occasion he was not quite so forthright as he was earlier in the year in defining the appropriate long-term rate at which the British Government should borrow. In the spring he named 2½ per cent. as being the proper rate, but to the assembled bankers and merchants he defined his target as borrowing "as cheaply as economic and financial conditions permit," which is not quite the same thing. He repeated his now familiar case that the reaction in the gilt-edged market was largely due to psychological factors arising from "exceptional discouragements and a period of monotonously bad news," and he warned his audience that it would be invidious for the City to demand more than 2½ per cent., since, on the ground that what is sauce for the goose is sauce for the gander, this would provoke demands from other members of the community for higher incomes themselves. Given the present thin condition of the market, the Chancellor's remarks were bound to have some effect upon gilt-edged levels, and the undated securities like 2½ per cent. Treasury stock and Old Consols have now established themselves on a yield basis of about 2.9 per cent. It is difficult to say whether the Chancellor was merely hoping for something better than 3 per cent., or whether he still regards himself as being irrevocably committed to 2½ per cent. If 2½ per cent. remains the target, it will take more than his advocacy of this rate to convince the gilt-edged market that he will succeed in restoring it—after all, subscribers to 2½ per cent. Treasury stock have sustained a loss of 15 points in the short space of nine months, and they have no wish to repeat that experience. The only other way of screwing the rate down would be a further bout of credit creation, and this, at a moment when the Chancellor is preoccupied with a deflationary Budget, would seem to be a paradoxical, not to say contradictory, policy to pursue.

Equities in the Doldrums

It is not only the gilt-edged market which has been in the doldrums during the past month. The partial recovery in equity share prices which carried the *Financial Times* index to a secondary peak of 117·9 at the beginning of October has since exhausted itself, and by October 17 the index had fallen to 111·1 compared with 115·5 on September 19. There are few new factors of importance in the market situation which were not already obvious in the summer. But the new sense of economic reality which appears to be spreading through the country and has been encouraged by a series of speeches by Sir Stafford Cripps, Minister for Economic Affairs, appears finally to have brought home to ordinary share investors some of the difficulties of the coming winter. These go well beyond an autumn Budget with stiffer taxation on company profits—the prospect of an increase in the distributed profits tax is already fairly generally discounted. Sir Stafford Cripps' references to our balance of payments predicament and the danger that it might even become necessary to cut imports of raw materials has come as a shock, and has assisted a contrary movement between industrial ordinary shares and gilt-edged stocks on almost the classical pattern of pre-war market reactions. The volume of dealing in industrial equities, on the other hand, remains extraordinarily low, so that any movement in prices, either down or up, is magnified by the thin character of dealings.

What Price for Transport Stock ?

The possibility of a renewed cheap money drive, discussed above, has a close bearing on the issue on January 1 next year of approximately £1,100 million of British Transport stock as compensation for railway stocks which are to be acquired under the Transport Act. When the Bill was being discussed in Parliament, Mr. Dalton worked out some figures showing the amount of "profit" which would accrue to the State as a result of acquiring the railway stocks, which were based on two assumptions : first that the railways would maintain a net income approximately at the level of the war-time rental (somewhat over £40 million) ; and secondly, that the compensation stock to be issued to the existing railway stockholders would carry interest at 2½ per cent. The only other known factor about the stock is that it will be redeemable "within this century." If the new stock were to carry 3 per cent. interest instead of 2½ per cent., it would affect the Chancellor's calculations of profits quite considerably. He faces the difficulty that between now and the end of the year he must either abandon his earlier hope of 2½ per cent. or must alternatively intervene in the market to restore long-dated Government stocks to that yield basis—a policy which, as we have seen, would involve grave inflationary risks. Moreover, the public would have some hard things to say to Mr. Dalton if he succeeded in re-establishing a 2½ per cent. rate and issued the Transport stock on that basis, only to leave it to its fate when dealings begin early next year. There have been various suggestions that the Chancellor might offer a series of options to railway stockholders in the hope of preserving at least the appearance of a 2½ per cent. rate, or that he might even issue a quite short-dated stock. The risks of the latter course are obvious ; the Transport Commission would be in a very unhappy situation if in, say, ten years' time it was compelled to undertake a big refunding and interest rates had in the meantime risen to higher levels.

Loan from South Africa

South Africa's gold loan of £80 million to this country is important, and, within limits, of valuable assistance in the British balance of payments crisis. It is nevertheless necessary to ponder the fact that the loan does not provide more gold to this country than would have been forthcoming, in all probability, under an extension of the present gold sales agreement. As a result of the loan, the United Kingdom will get an immediate delivery of gold at the beginning of next year instead of having to wait for a similar amount over about three years. It is important to realise, however, that the South African authorities will in future meet the whole of their dollar expenditure from their own resources, so that the sterling "dollar pool" will be relieved of that responsibility. Moreover, the control of capital movements from this country to South Africa which is contemplated, though not defined, in the agreement should remove a serious source of distortion of the balance of payments between the two countries. There is little doubt that the flow of sterling from this country to South Africa has in the past led the Union authorities to offset the sterling thus received by an expansion of their imports from the United States and other hard currency areas. The new agreement is likely, therefore, to have a considerable reaction on South African imports, particularly from the United States.

Points from Published Accounts

Piecing a Picture Together

A fall from £1,725,713 to £560,276 in the trading profit of Burmah Oil (derived from wholly-owned subsidiaries) is easily explained, for it follows on the cessation of military demands for oil in India. It serves to emphasise, however, the importance of other sources of revenue, £954,632 being contributed by dividends and interest from other subsidiary and associated companies, £1,052,705 by dividends and interest from miscellaneous investments and £564,829 by interest from British Government securities, etc. In capital value the assets providing this income are more than ever significant since the trading profit is drawn from the sale of imported oil, the oil producing and distributing assets in Burmah having been largely destroyed through denial to the enemy in April, 1942. In the circumstances the consolidated balance-sheet could be more informative. A useful change has been made following re-entry of the operating and trading companies into Burmah in April, 1946, for the directors have segregated the expenditure on capital assets (including stocks of stores, products, etc.) and these subsidiaries, as represented by the *ad hoc* book values at the time of the denial, from the expenditure on similar items incurred since April 1, 1946. The book value of the denied assets, £2,927,536, has been offset by a transfer from the war contingencies reserve created in 1942, thus left at £472,464, while the measure of the new investment from April, 1946, onwards is shown partly by rehabilitation expenditure of £872,587, partly by an increase from £148,291 to £1,055,641 in stocks of plant and stores outside the denial and partly by changes in other items. This is all very satisfactorily displayed. But the item, investments in other subsidiaries, brought in at £1,285,071, might well be expanded. It is stated to include "the holding of 700,000 ordinary shares in the B.A.O.C. Anglo-Iranian Share Trust, Ltd., at 30s. per £1 share (the assets of that company being 1,050,000 units of £1 ordinary stock of the Anglo-Iranian Oil Co., Ltd.)." It would have been so easy to add that the 700,000 shares in the subsidiary represent the whole of its capital, and that the Anglo-Iranian shares are, in effect, therefore brought in at 20s. per unit, against a market price of £6 on December 31 last, and a current quotation of around 8½. This omission is the stranger since there is also a direct holding in Anglo-Iranian which avowedly is taken in at 20s. per unit. This is included in miscellaneous investments of £9,126,864, but there is nothing to show that it comprises 4,292,985 units. Similarly, investments of £1,428,238, shown at cost or under, are not stated to include 1,200,000 ordinary shares of Shell Transport and Trading, alone worth over £5,000,000 at the current market price. The picture can be put together by anyone who has studied the accounts over a long period, but it seems unkind to leave shareholders to collate the information themselves when it might so easily, and more authoritatively, have been provided in the accounts.

Asset Values and Depreciation

In most respects the accounts of International Tea are a model of presentation and clarity. A minor criticism is that estimated liability to E.P.T. and profits tax of an undisclosed amount is included, in the consolidated balance sheet, in the "sundry creditors and accrued expenses" entry of £1,907,048, a matter which clearly is not without its bearing on the significance of the £2,667,438 total of cash, tax reserve certificates and investments in British Government securities. More serious, perhaps, is the failure to show what deductions have been made from the fixed assets before arriving at their book value of £4,103,395. This item mainly comprises freehold properties at cost of £3,278,572, against which a depreciation reserve of £90,000 figures among current liabilities and provisions. This provision is shown separately for the first time, and the chairman is at pains to point out that "although it is provided to cover possible obsolescence and deterioration of the actual buildings or fabric, your board has no doubt that the retail shop properties, on present day values, are worth two or three times their original cost." The position being so strong, it is surprising that the directors have not accepted the logic of present-day accounting practice and shown the cost value for leasehold properties on the one hand and for fixtures, fittings, plant, machinery and motor vehicles on the other, with the corresponding accumulated write-offs for depreciation, instead of giving merely two residual figures of £442,322 and £382,501 respectively. In view of the growing, but still immature, movement to justify the scale of business profits to the public at large it is interesting to note the chairman's statement that on the recommended dividend of 16 per cent. the yield to stockholders is 3.2 per cent. on the original issue price of 25s. per share in 1928, or 4 per cent. on the present market price. Of closer concern and greater interest would have been a calculation relating profits (not dividends) to turnover (not share prices) and to capital employed. It is on these ratios that the public is likely in the end to judge the efficiency of an undertaking and the reasonableness of its earnings.

Scale of Profits

The validity of this argument is implicitly accepted in the Qualcast statement, for the chairman announces that the record profit for 1946-47 was secured although the company operated "at a lower percentage profit than we obtained in our last pre-war year." He adds that had the company been able to operate as it had planned, it could have been content with a still lower percentage of profit and have had a still more satisfactory result. This anomaly Mr. J. E. V. Jobson explains by declaring that "we have never been able to see our long range plans maturing at even approximately the dates at which they were due, nor have we been able to operate our production schedules satisfactorily owing to shortages of material." Both the statement of fact on profit margins and the criticism leading from it would have gained in force had the actual percentage profits for 1946-47 and 1938-39 been stated. Among other useful information which Mr. Jobson provides is that "a careful comparison of our costs before and after the introduction of the five-day week, after eliminating our main raw material so as to arrive at our fabricating costs, and taken over four week periods in both cases, with as near as possible like volume of output, shows in our foundries an increase of 4.8 per cent." This he describes as "just one of those things which occur and which the theorist ignores." It is tantalising not to know how the increase has come about, and a breakdown of costs before and after the introduction of the shorter working week would have been of interest to the theorist and others. This is not a criticism. It would be manifestly unfair to criticise a company which is breaking fresh ground in the matter of disclosure for not having gone even further. But the point is raised again whether it would not have been possible to have given a more detailed insight into the

position without placing the company at a disadvantage in relation to its competitors. The legitimate answer may well be that the requisite accounting techniques have not yet been worked out. Such fundamental issues for industry as a whole are at stake that, once the business of adapting accounts to the requirements of the new Companies Act has been successfully accomplished, more and more attention is likely to be given to evolving such new techniques and adapting them to individual industries and enterprises.

LAW

Legal Notes

EXECUTORSHIP LAW AND TRUSTS

Trustee's powers of disposition.

Where a person is appointed by will or trust instrument to some fiduciary position and he is given the power of disposition over the trust property, it must be a question of construction in each particular case whether that power was given to him as an individual or *ex officio*. In *Re Edwards' Will Trusts* (1947, 2 All E.R. 521), T. executed in 1936 both a settlement and a wil on the same day. By the settlement, L. "and the managing trustee or trustees for the time being of these presents," were referred to as the managing trustees. The settlement directed the investment of £100 "in any investments which the managing trustee may think fit, as though he were beneficially entitled," and that the trust fund and income should "be held upon trust to pay the income and to transfer the capital *in specie* or otherwise to such persons as the settlor shall direct and in default upon trust to pay or transfer the same to such persons as the managing trustee shall in his absolute and uncontrolled discretion think fit." Subject to this provision, the trust fund was to be held for T.'s wife and children. It was recited that L. had agreed to act as managing trustee and that the power to appoint a new managing trustee was vested in T. for his life, then in L. for life, then in L.'s personal representatives. By his will T. gave all his property to the trustees of the settlement, "upon the trusts and subject to the powers therein contained." In 1937 T. executed a memorandum purporting to exercise the general power of disposition reserved to him by the settlement, directing *inter alia* the payment free of death duties of £20,000 to L., £5,000 on trust for T.'s daughter on the death of T.'s widow, and £10,000 to T.'s son, also on the widow's death. By three codicils, two made in 1939 and one ed two days before his death, T. confirmed his will. He died on February 6, 1944.

Jenkins, J., held: (i) on the true construction of the settlement, L. had no beneficial interest, and the powers of managing trustee were conferred, not on the individual, but on the person for the time being holding the position of managing trustee. Therefore L. could not cause the fund to be applied for his own purposes; (ii) giving effect to the principle that a codicil operates to bring the antecedent will down to the date of the codicil, the will must be taken to be dated February 4, 1944. By it, T. left his residuary estate on such trusts as he should declare in a future document. By bringing his will down to the date of the codicil, however, T. had not incorporated the memorandum in existence at that date as part of T.'s testamentary papers. Accordingly, the residuary gift relating to the trust by reference to the settlement must be wholly bad.

Society of Incorporated Accountants

Dinner at Birmingham

The Incorporated Accountants' Birmingham and District Society held its annual dinner at the Midland Hotel, Birmingham, on October 3. The President of the District Society, Mr. Vernon W. Grosvenor, LL.B., J.P., F.S.A.A., presided, and the guests included the Lord Mayor of Birmingham (Alderman A. F. Bradbeer, J.P.) and the Lady Mayoress; Sir Frederick Alban, C.B.E., J.P., F.S.A.A. (President, Society of Incorporated Accountants and Auditors); Sir Percy Mills, K.B.E. (President, Birmingham Chamber of Commerce); Mr. C. Ashford Elton, D.S.O. (President, Birmingham Law Society); Mr. T. E. Hurst (District Manager, Lloyds Bank, Ltd.); Mr. A. L. Greey, F.C.I.S. (Chartered Institute of Secretaries); Mr. J. Whittle, F.I.M.T.A. (Institute of Municipal Treasurers and Accountants); Mr. S. Bradley, F.L.A.A. (Association of Certified and Corporate Accountants); Mr. F. C. Minshull, LL.M. (Town Clerk of Birmingham); Professor D. Cousins, B.Com., A.C.A. (Birmingham University); Mr. Ivan Shortt (The British Joint Association of Goldsmiths, Silversmiths, etc.); Mr. W. J. G. Sperryn (President, The Rotary Club); Mr. H. N. Iley (President, Institute of Bankers, Birmingham); Mr. D. Neal, F.C.A. (President, Birmingham and District Society of Chartered Accountants)..

After the Royal Toast had been honoured,

Mr. E. T. Brown, F.S.A.A., senior Past President of the District Society, proposed the toast of "The City of Birmingham." Mr. Brown said that the city had been notable for its industries and for the number of its citizens who had attained eminence in the affairs of the nation. In the moral sphere he referred to Dr. Dale and Cardinal Newman, and in politics to John Bright and Joseph Chamberlain, whilst in its industries the city had produced men whose names were noted throughout the world, such as Boulton, Watts, and Murdock. He suggested that the leaders of the city should co-operate with neighbouring towns in establishing a water-way to the West of England.

The Lord Mayor of Birmingham, Alderman A. F. Bradbeer, J.P., thanked Mr. Brown for the very clear and full way in which he had covered the ground, and envied his evident vigour and breadth of vision. He commended to the attention of the profession the need for distinguishing in public finance not only between matters of capital and revenue, but between different classes of capital expenditure. He fully supported the Government's proposed reduction of the country's programme of capital expenditure, but he suggested that there were certain desirable schemes which were being held up because of the proposed restrictions, but which in fact would make no demand on labour and materials whilst at the same time achieving very desirable ends. The city's proposed Inner Ring road scheme was the particular example he had in mind. The acquisition of properties, many of them in very bad repair, could be proceeded with immediately without any loss of capital, as their acquisition would merely

mean a transfer of ownership of existing assets of the nation. The Lord Mayor concluded by expressing his pleasure that he and the Lady Mayoress had been invited to this gathering, and their high appreciation of the valuable services which the profession rendered to the community.

The toast of "The Society of Incorporated Accountants and Auditors" was proposed by Sir Percy Mills, K.B.E., who said that the accountancy profession was an essential service in trade, commerce, agriculture, and all walks of life. The steady flow of qualified accountants into industry was for the benefit of both the profession and industry. It was also a fact that the accountant turned industrialist was among those most keen to employ the practising accountant, because he knew that the advice he received would be unprejudiced and based on a knowledge of affairs and men. The accountant must keep knowledgeable regarding those matters upon which his advice and guidance were sought, and he himself was impressed when he reflected on how much more the accountant to-day had to know than at the time he served in an accountant's office. Industry, trade and commerce must recognise that accountancy must be a well-paid profession. He hoped that the Public Accountants Bill would have speedy passing, and that the ensuing Act would add to the renown of the Society and the profession. Sir Percy concluded by expressing his pleasure in having the privilege of coupling Sir Frederick Alban's name with the toast.

The response was made by Sir Frederick Alban, C.B.E., J.P., F.S.A.A., President of the Society of Incorporated Accountants. He said that the Society was founded in 1885 and now had some 8,000 members, of whom nearly 3,000 were practising members. Students numbered 7,000, and there were branches and District Societies throughout the country, and also in Canada, Australia, New Zealand, South Africa, and India. The secretary was at present visiting Canada and the United States. He referred to the difficulties which the Society was experiencing, one of which was that national service interfered with the flow of students into the profession. Recently, however, a scheme had been established of university training whereby students could qualify in 5¼ years, including 2¼ years at the university, and the remainder of the time spent in the office of a professional accountant. Sir Frederick spoke of the excellent work of the Research Committee, and the recent issue of the second edition of the book *Design of Accounts*. He also made reference to the valuable work of the District Society of Birmingham under the chairmanship of Mr. Grosvenor. He hoped that the Public Accountants Bill would receive the close attention of the Government, who must look after the interests of the public, and pointed out that it was in the interests of the public that those who practised as accountants should be reputable and qualified. He also referred to the policy of nationalisation, and to the effect it would have on the profession in that the accounts of the National Coal Board and the hospitals and other nationalised bodies would be audited by civil servants. Sir Frederick concluded by speaking of the present grave crisis, and, after quoting classical utterances by great men of the past, said we had been up against it before, and in the present emergency we all had a special duty to dedicate our efforts to pulling this country through again.

The toast of "Our Guests" was proposed by Mr. V. W. Grosvenor, LL.B., J.P., F.S.A.A., President of the Birmingham and District Society. This toast was responded to by Mr. C. Ashford Elton, D.S.O., and Mr. T. E. Hurst.

Mr. W. G. A. Russell, F.S.A.A., proposed the toast of "The President of the Incorporated Accountants' Birmingham and District Society." He spoke of his very high regard for Mr. Grosvenor, who was a member the City Council and served for six years as a member of the Public Health Committee and as Chairman of the Finance Committee. Recently he was appointed to the Birmingham Regional Hospital Board to act as chairman of its Finance Committee.

Mr. Grosvenor replied.

South African (Northern) Branch

A luncheon to Sir Thomas Keens, D.L., F.S.A.A., was given in Johannesburg on September 23. Mr. L. P. Kent, Vice-Chairman of the Branch Committee, was in the chair, and the company included Mr. K. L. Smith (Member of Branch Committee and President of Transvaal Society of Accountants), other members of the Committee, Mr. R. B. Hogg (Honorary Secretary), and Mr. R. E. Grieveson (Assistant Honorary Secretary).

In welcoming Sir Thomas Keens, Mr. Kent regretted that Mr. A. S. Aiken, Chairman of the Branch, was away overseas, and was therefore missing the privilege of entertaining their distinguished visitor. Sir Thomas was the senior Past President of the Society, a member of the Council and two of its Committees, and President of the Benevolent Fund. He hoped that Sir Thomas would give them the benefit of his views on certain present-day problems. In appreciation of Sir Thomas' visit, the Branch Committee had decided to make a donation of £26 5s. to the Benevolent Fund, and he had pleasure in handing a cheque for this amount to Sir Thomas to take back to London.

Sir Thomas Keens thanked the Committee for their donation, which he assured them would be devoted to good purpose. He went on to say how much he appreciated the opportunity of meeting members of the Society in Johannesburg, and commented on the optimism which he had found expressed everywhere in South Africa. He thought it might be of interest for him to give a picture of the life of a practising accountant in Great Britain during the war and afterwards.

The difficulties of travel in London and other big cities during the war, owing to dislocations caused by bomb damage and wartime measures, applied to all of a firm's depleted staff, and with the consequent lessening of working time he felt it was remarkable that practising accountants had managed to pay their way at all during the war.

Secondly, he drew a picture of the vast areas in the City laid absolutely bare by bomb damage, and emphasised the premium now placed on office accommodation as a result. The severe damage to Incorporated Accountants' Hall was irreparable, and a tragedy of the highest degree when one considered what an architectural masterpiece the Hall had been, both inside and out. Finally, he referred to the difficulties of production by private enterprise in Great Britain to-day, and the necessity of finding outlets such as South Africa for employment of capital resources of all kinds. In spite of these problems, he had not lost faith in his race nor in its Commonwealth of Nations, and was convinced that the spirit and ingenuity still existed to see Britain through its present troubles.

Mr. Kent and Mr. K. L. Smith, on behalf of the Committee, expressed sincere appreciation of Sir Thomas's short talk, which had been most informative.

RESULTS OF EXAMINATIONS IN SOUTH AFRICA

MAY, 1947

Passed in Final

Alphabetical Order

BARBE, BERNARD GERARD, clerk to Maldwyn Edmund and Co., Aegis Buildings, Loveday Street, Johannesburg.

CROSSMAN, GEORGE LESLIE, clerk to Halsey, Button and Perry, Cato House, Smith Street, Durban.

SCHOOMBIE, SIDNEY VASNI, B.Com., formerly clerk to Dreyer and Dreyer, 512-18, Anglovaal House, Fox Street, Johannesburg.

(3 *Candidates failed to satisfy the Examiners.*)

EXAMINATIONS, MAY, 1948

The Society's examinations will be held on May 4, 5 and 6, 1948, at London, Manchester, Leeds, Cardiff, Glasgow, Dublin and Belfast. Completed applications must reach Incorporated Accountants' Hall not later than Tuesday, March 16, 1948.

The Society cannot undertake to arrange hotel accommodation. Candidates must make their own arrangements in this respect.

DISTRICT SOCIETIES AND BRANCHES

SCOTTISH BRANCH

A meeting of the Council of the Scottish Institute of Accountants, the Scottish Branch of the Society, was held in Glasgow on October 1. Mr. D. R. Matheson, LL.B., presided over a good attendance of members. The Secretary, Mr. James Paterson, reported on the applications received, since last meeting, from candidates for the Society's Examinations, and the Chairman referred to a number of matters of interest to the members and the profession in Scotland.

Mr. Alexander Morrison Shaw, F.S.A.A., Glasgow, was elected to fill the vacancy in the Council caused by the death of Mr. William Houston.

Glasgow Students' Society

A general meeting of the Glasgow Students' Society was held on September 25. Mr. Robert Fraser, F.S.A.A., presided over a large attendance of members.

The Hon. Secretary, Mr. J. Hawthorne Paterson, in a report stated that although they had held several meetings last year, this was the first general meeting of members since 1939. He also submitted the financial statement up to date, which showed the funds to be in a satisfactory condition. The report and accounts were approved, and a new Committee appointed with Mr. Robert Fraser, President, and Mr. J. Hawthorne Paterson, Hon. Secretary. Arrangements were made for meetings during the ensuing session.

In moving a vote of thanks to the Chairman for presiding, and for his continued interest in the Students' Society, Mr. James Paterson, Secretary of the Scottish Branch, mentioned that it was 40 years ago that the Glasgow Students' Society was inaugurated by an address from Mr. Harry Lloyd Price, then President of the Society.

LONDON STUDENTS' SOCIETY

There was a very pleasant social atmosphere prior to the first lecture of the autumn session held on October 7, when the President, Mr. A. V. Hussey, F.S.A.A., and Mrs. Hussey, received nearly 200 students, who enjoyed tea and refreshments. Miss Margaret Fox, Incorporated Accountant, presented a bouquet of roses and carnations to Mrs. Hussey, to whom Mr. F. R. Witty (Vice-President) extended a very warm welcome on behalf of all members present. The spirit of the occasion was aptly summed up by Mrs. Hussey, who explained that for the first time she could appreciate those many excuses she had heard about being home late because it was a Students' Society night.

The opportunity was taken of introducing Mr. I. A. F. Craig, Deputy Secretary of the Society of Incorporated Accountants, to the larger number who attended the mock meeting of creditors in voluntary liquidation, which had been arranged by Mr. Hussey. This proved to be entertaining as well as instructive, as the members demonstrated during the proceedings and at the conclusion.

A joint debate between student members and those of the Chartered Accountant Students' Society of London has been arranged to take place at The Auctioneers' and Estate Agents' Institute, 29, Lincolns Inn Fields, W.C.2, at 5.45 p.m., on Monday, December 8. Mr. Collin Brooks will be in the chair. The subject for the debate will be :—

"That a period of service in industry would render the work of a professional accountant more effective."

Members of the Chartered Accountant Students' Society of London will speak *for* the motion and members of the Incorporated Accountants' Students' Society of London and District *against* the motion.

The first speakers for and against the motion will each speak for seven minutes ; the second and third speakers for and against will each speak for five minutes and the open debate will last for another 26 minutes (speakers being limited to two minutes each). The vote will be taken by show of hands, after a summing-up by the Chairman.

Would those members of the Incorporated Accountants' Students' Society of London and District who would like to speak at this debate, please write to the Secretary, Mr. C. Evan-Jones, as soon as possible.

Tea and light refreshments will be provided at the Auctioneers' and Estate Agents' Institute between 4.30 p.m. and 5.30 p.m.

LONDON AND DISTRICT AND LONDON STUDENTS' SOCIETIES

The London and District and London Students' Societies are much indebted to Mr. H. A. R. J. Wilson, F.S.A.A., F.C.A., for two excellent lectures which he gave to their members on October 13 and 20 respectively. The subjects covered were "The Finance Act, 1947 (excluding Profits Tax)" and "The Finance Act, 1947, Profits Tax."

The popularity of both the lecturer and the subjects was obvious from the attendance of 352 and 490 members on these occasions.

CUMBERLAND AND WESTMORLAND

Syllabus of Lectures, 1947-8

1947

Oct. 27 "Accounting Principles," by Mr. W. Bertram Nelson, J.P., F.S.A.A.

Dec. 3 "Budgetary Control in conjunction with Cost Standards," by Mr. W. W. Bigg, F.S.A.A., F.C.A.

1948

Jan. 13 "Consolidated Accounts," by Mr. A. E. Langton, LL.B., A.S.A.A., A.C.A.

Feb. 13 "Modern Auditing Procedure," by Mr. R. Glynne Williams, F.C.A.

Mar. 9 "War-time Developments in Income Tax," by Mr. H. A. R. J. Wilson, F.S.A.A., F.C.A.

April 13 "Economic Planning," by Mr. A. R. Ilersic, B.Com., University College, Exeter.

All lectures will be held at the Town Hall, Carlisle, at 7 p.m., and will be open to all members and students.

NEWCASTLE-UPON-TYNE

Syllabus of Lectures, 1947-8

Newcastle Lectures

To be held at the Library, 52, Grainger Street, Newcastle-upon-Tyne, at 6.15 p.m.

1947

Oct. 7 "Profits Tax," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A.

Oct. 15 "Income Tax Act 1945 in Practice," by Mr. J. S. Heaton, A.S.A.A.

Oct. 23 "Consolidated Balance Sheets," by Mr. H. C. Cox, F.C.A.

Nov. 18 "Auditing," by Mr. W. W. Bigg, F.C.A., F.S.A.A.

Dec. 2 "Finance Act 1947," by Mr. A. E. Langton, LL.B., A.S.A.A.

Dec. 18 "Public Finance," by Mr. Leo T. Little, B.Sc. (Econ.).

1948

Jan. 14 "Preliminary Steps in the Installation of a Costing System," by Mr. W. Wheldon Wright, A.S.A.A., A.C.W.A.

Jan. 16 "Companies Act 1947," by Mr. J. Charlesworth, LL.D.

Feb. 11 "Legal and Equitable Apportionments," by Mr. C. Lawton, M.Sc. (Econ.), Barrister-at-Law.

Feb. 19 "Balance Sheets in accordance with Companies Act 1947," by Mr. J. E. Spoors, F.S.A.A., A.C.I.S.

Mar. 17 "Liquidations," by Mr. A. V. Hussey, F.S.A.A.

Tees-Side Lectures

To be held at the Café Royal, Linthorpe Road, Middlesbrough, at 6.30 p.m.

1947

Oct. 6 "Profits Tax," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A.

Oct. 16 "Income Tax Act 1945 in Practice," by Mr J. S. Heaton, A.S.A.A.

Oct. 24 "Consolidated Balance Sheets," by Mr. H. C. Cox, F.C.A.

Nov. 20 "Auditing," by Mr. W. W. Bigg, F.C.A., F.S.A.A.

Dec. 3 "Finance Act 1947," by Mr. A. E. Langton, LL.B., A.S.A.A.

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Jan. 15 "Preliminary Steps in the Installation of a Costing System," by Mr. W. Wheldon Wright, A.S.A.A., A.C.W.A.

Feb. 12 "Legal and Equitable Apportionments," by Mr. C. Lawton, M.Sc. (Econ.), Barrister-at-Law.

Mar. 18 "Liquidations," by Mr. A. V. Hussey, F.S.A.A.

NORTH STAFFORDSHIRE

Syllabus of Lectures, 1947-48

1947

Oct. 1 "Britain's International Trade Position," by Mr. A. R. Ilersic, University College, Exeter. Chairman: Mr. W. C. Coxon.

Nov. 6 "The Companies Act, 1947," by Mr. H. A. R. J. Wilson, F.S.A.A., F.C.A. Chairman: Mr. E. S. Stoddard.

Dec. 4 "The Criticism of a Balance Sheet," by Mr. W. W. Bigg, F.S.A.A., F.C.A. Chairman: Mr. R. M. Chapman.

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Feb. 26 "Co-partnership in Industry," by Mr. Percy H. Walker, F.S.A.A. Chairman: Mr. J. Paterson Brodie.

Mar. 22 "Prospectuses and Public Flotations," by Mr. W. C. Coxon, F.S.A.A. Chairman: Mr. A. P. Walker.

April 19 Paper by a member of the Income Tax Inspectorate. Chairman: Mr. A. Brodie.

The meetings will be held at the Town Hall, Hanley, at 6.30 p.m.

SHEFFIELD

Annual Report

Four joint lectures were held with the Institute of Chartered Accountants, the Chartered Institute of Secretaries, and the Institute of Bankers. In addition, four lectures were arranged by the District Society, to which members of the Institute of Chartered Accountants were invited, and two luncheon meetings were held jointly with the Sheffield Centre, Institute of Chartered Accountants.

Students returned from H.M. Forces were invited to a dinner. Most of the members of the Committee were present, and the dinner was followed by an informal meeting at which the students expressed their ideas on help which could be given to them on their return to the profession. The result was a most successful series of five discussion meetings, with assistance from various members of the Society.

The District Society celebrated its Diamond Jubilee on March 20 and 21, 1947, and many distinguished visitors were entertained.

One student passed the Final Examination during 1946, and five passed the Intermediate.

INCORPORATED ACCOUNTANTS' GOLFING SOCIETY

Members of the Golfing Society had an enjoyable day at Moor Park Golf Club, Rickmansworth, on September 24. The singles stroke competition in the morning was won by Mr. R. Harborne (visitor), with Mr. D. H. White (visitor) second. In the afternoon a four-ball, better ball, stroke competition was held. The first prize was won by Mr. D. H. White and Mr. H. D. Griew, and the second by Mr. A. H. Lindsay and Mr. A. J. H. Watson.

The members expressed a desire to hold a further meeting at Moor Park in September, 1948, and it was suggested that if possible, a spring meeting be arranged at a course nearer London.

PERSONAL NOTES

Mr. R. E. Yeabsley, C.B.E., F.C.A., F.S.A.A., is a member of the committee appointed by the President of the Board of Trade to make a general inquiry into the practice of re-sale price maintenance.

Messrs. Evans, Peirson and Co., Portland House, 73, Basinghall Street, London, E.C.2, have admitted into partnership Mr. Gilbert H. Stevenson, Chartered Accountant, and Mr. Albert Birch, Incorporated Accountant, both of whom have been associated with the firm for many years. The name of the firm will remain unchanged.

Messrs. Croydon and King, Incorporated Accountants, 7, Grosvenor Gardens, London, S.W.1, announce that Mr. Cyril Albert Herrtage has retired from the firm after an association of 37 years. Mr. John Duncan King, A.S.A.A., who has been a member of their staff for 16 years, has been admitted as a partner.

Mr. C. P. McCarthy, M.Comm., and Mr. Henry J. Daly, B.Comm., have joined in partnership and are practising as C. P. McCarthy, Daly and Co., Incorporated Accountants, at 40, South Mall, Cork.

Messrs. Bradley, Slater and Ratcliffe, Incorporated Accountants, Boscombe and Christchurch, announce that Mr. Ernest R. Bradley has retired from the firm. The practice is being carried on by the two remaining partners, Mr. I. H. Slater and Mr. G. L. Ratcliffe, and the firms name is unchanged.

Mr. Archibald Brown and Mr. Graham G. Bissell, Incorporated Accountants, have dissolved partnership. Mr. Bissell is now practising as Graham G. Bissell and Brown at 158, High Street, Aston, Birmingham, 6.

Messrs. Johnstone, Moulder and Tyers, Incorporated Accountants, have dissolved partnership by mutual consent. Mr. William Johnstone, F.S.A.A., remains in practice at 13, Church Street, Kidderminster; Mr. H. Moulder, F.S.A.A., and Mr. G. A. Tyers, F.S.A.A., will practise at Trinity Chambers, Coventry Street, Kidderminster, under the style of Moulder and Tyers.

Messrs. Mitchell & Plummer, Incorporated Accountants, Luton, have opened a branch office at 31, High Street North, Dunstable. This is under the charge of Mr. S. R. Holton, Incorporated Accountant, who has recently been taken into partnership.

REMOVALS

Messrs. Haydon and Fry, Incorporated Accountants, have removed their offices to 7, Queen Anne Terrace, Plymouth.

Messrs. L. Gostyn and Co., Incorporated Accountants, have removed to 156, Charing Cross Road, London, W.C.2.

Mr. M. Haley, Incorporated Accountant, has removed to 31, Portico Lane, Whiston, near St. Helens, Lancs.

Mr. C. N. C. Sebright, Incorporated Accountant, is now practising at 29, Mincing Lane, London, E.C.3.

Messrs. Frank A. Reeder and Co., Incorporated Accountants, have temporarily removed to Danes Inn House, 265, Strand, London, W.C.2.

Messrs. James Bennett and Son, Incorporated Accountants, announce their new address at 132-4, Fleet Street, London, E.C.4.